

REBUTTAL TESTIMONY

of

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Accountant

Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Request for Increase in Gas Rates

Central Illinois Light Company

Docket No. 02-0837

May 21, 2003

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1 Witness Identification

2 Q. Please state your name and business address.

3 A. My name is Dianna Hathhorn. My business address is 527 East Capitol Avenue,
4 Springfield, Illinois 62701.

5

6 Q. Have you previously filed testimony in this proceeding?

7 A. Yes, my direct testimony is ICC Staff Exhibit 2.

8

9 Purpose of Testimony

10 Q. What is the purpose of this testimony?

11 A. I am presenting my position based upon Central Illinois Light Company's
12 ("CILCO" or "Company") rebuttal testimony. Specifically, my testimony
13 addresses four adjustments contested by the Company: rate case expense,
14 union payroll increase, non-recurring expense, and uncollectibles expense. My
15 testimony also addresses my incentive compensation adjustment, which the
16 Company has accepted, and the Company's update to pension expense and
17 benefits costs.

18

19 Q. Are you sponsoring any schedules with your testimony?

20 A. Yes. I prepared the following schedules for the Company, which show data as
21 of, or for the test year ending December 31, 2001:

22 Schedule 8.1 -- Adjustment to Rate Case Expense

23 Schedule 8.2-- Adjustment to Union Payroll Increase

24 Schedule 8.3-- Adjustment for Non-Recurring Expense
25 Schedule 8.4-- Adjustment to Uncollectibles Expense at Present Rates
26 Schedule 8.5-- Adjustment to Incentive Compensation Expense
27 Schedule 8.6-- Adjustment to Pension and Benefits Expense
28 Schedule 8.7-- Adjustment to Capitalized Pension and Benefits

29

30 Adjustment to Rate Case Expense

31 Q. Please explain your Adjustment to Rate Case Expense, in Schedule 8.1.

32 A. Schedule 8.1 reflects my proposed adjustment to amortize the Company's rate
33 case expense over a 5-year period, rather than 3 years, as proposed by the
34 Company. My rebuttal adjustment is unchanged from my adjustment presented
35 in my direct testimony.

36

37 Q. The Company states that, while a five-year amortization may have been
38 appropriate for CILCO under its previous ownership, now that CILCO is owned
39 by Ameren, a three-year amortization period is the best period over which to
40 amortize rate case expense (CILCO Rebuttal Exhibit 6.2, page 25, lines 537-
41 539). Further, CILCO states that Ameren agreed to a stay-out provision for the
42 gas business until 2005, and anticipates that a gas case will be filed shortly after
43 that provision expires (CILCO Rebuttal Exhibit 6.2, pages 25-26, lines 539-542).
44 Does Ameren's prior rate case history support a three-year amortization period?

45 A. No. The most recent gas rate case for Central Illinois Public Service Company
46 ("CIPS") and Union Electric Company ("UE") was in 1998, Docket No. 98-0546.

Prior to that, CIPS conducted rate cases in 1991, 1990, and 1982, while UE's prior rate case dates back to 1984. This equates to a five-year average period between rate case filings for CIPS, and even longer for UE. Additionally, while CILCO is precluded from filing a gas rate case prior to 2005, this is no guarantee that the Company definitely will file in 2005. None of the rate case histories for CILCO, CIPS, nor UE supports a three-year amortization period.

Q. The Company requests that, if the Commission determines a five-year amortization of rate case expense is appropriate, that the final order in this proceeding specifically state that the Company shall be allowed to include in future rate cases any unamortized balance related to rate case expense (CILCO Rebuttal Exhibit 6.2, page 26, lines 546-549). Do you have any concerns regarding this request?

A. The Commission's current practice is to allow a utility to include unamortized rate case expense in rate base. However, I cannot commit a future Commission to this same practice.

Q. How does your adjustment to rate case expense compare to Mr. Effron's adjustment in AG/CUB Exhibit 1.0, Schedule C-2?

A. Our adjustments are identical.

Adjustment to Union Payroll Increase

Q. Please explain your Adjustment to Union Payroll Increase, in Schedule 8.2.

70 A. Schedule 8.2 revises my Schedule 2.2 for information presented by the Company
71 in its rebuttal testimony in CILCO Rebuttal Exhibit 6.2, at pages 14-15. CILCO
72 explained that my adjustment would allow only eleven months of the annualized
73 amount of the increase in payroll. From reviewing this testimony and re-
74 reviewing the Company's workpaper WPC-3.3, I now realize that the Company
75 did not include payroll costs beyond the Company's test year. Therefore my
76 adjustment to union payroll increase reflects the same amount as the
77 Company's.

78
79 Adjustment for Non-Recurring Expense

80 Q. Please explain your Adjustment for Non-Recurring Expense, in Schedule 8.3.

81 A. Schedule 8.3 presents my adjustment to disallow the cost of a contract employee
82 because the cost is a non-recurring expense. My rebuttal adjustment is
83 unchanged from my adjustment presented in my direct testimony.

84
85 Q. The Company states that, if it proposed an adjustment to annualize the cost
86 associated with a new full-time employee, such adjustment would exceed the
87 amount you disallowed for the non-recurring temporary contractor expense
88 (CILCO Rebuttal Exhibit 6.2, page 16, lines 326-330). Is your adjustment based
89 upon the Company's labor expense?

90 A. No, it is not. As stated in my direct testimony, my adjustment is based upon the
91 total test year non-payroll expense recorded in account 851, system control and
92 load dispatching (ICC Staff Exhibit 2, page 5). My analysis of this account shows

that the test year non-payroll balance of account 851 is \$44,662, compared to the 1999, 2000, and 2002 (through 11/02) non-payroll balances of \$4,007, \$9,689, and \$14,904, respectively.

Q. The Company argues that, since there will always be some level of legitimate non-recurring expenses in the test year, Staff's adjustment should not be approved (CILCO Rebuttal Exhibit 6.2, pages 16-17, lines 331-335, 347-351). Does the Company's position conform to your general understanding of utility ratemaking?

A. No, it does not. The test period should reflect a normal, recurring level of expenditures. Items that are of a one-time nature are typically excluded from the revenue requirement, or, in certain circumstances, are allowed to be amortized over an appropriate recovery period.

Adjustment to Uncollectibles Expense at Present Rates

Q. Please explain your Adjustment to Uncollectibles Expense at Present Rates, in Schedule 8.4.

A. Schedule 8.4 replaces my Schedule 2.4 for a correction to line 6, Company operating revenues at present rates. In my original schedule, Staff inadvertently included add-on tax revenue in operating revenues, which is incorrect. Therefore, I have revised my adjustment for the correct operating revenues at present rates amount, which also revises line 9. I have not changed the methodology of the adjustment.

116

117 Q. The Company presents CILCO Rebuttal Exhibits 5.4 and 5.6, which reflect
118 NYMEX gas futures prices for various time periods (CILCO Rebuttal Exhibit 5.2,
119 page 14 at line 299 and page 15 at line 328). The Company further states that
120 every indicator shows that gas costs will be as high or higher in the foreseeable
121 future than they were in the test year (CILCO Rebuttal Exhibit 5.2, pages 13-14,
122 lines 293-295). How do you respond to this argument?

123 A. Staff witness Lounsberry, in ICC Staff Exhibit 11, is addressing CILCO's
124 erroneous reliance on forecast gas costs, as they relate to uncollectibles
125 expense.

126

127 Q. The Company states that your adjustment ignores the fact that the test year
128 uncollectibles expense is directly related to higher costs of gas during the test
129 year (CILCO Rebuttal Exhibit 5.2, page 13, lines 287-288). How do you respond
130 to this argument?

131 A. My adjustment accounts for the higher cost of gas during the test year by
132 calculating an average uncollectibles *rate*, rather than simply a test year amount
133 of expense. It is calculated in two steps. First, for each year 1998 through 2001,
134 I divide the historical uncollectibles expense by the historical total revenues
135 amount, to determine annual uncollectibles rates. As the company utilizes a
136 purchased gas adjustment clause, these revenues are directly related to the cost
137 of gas. Next, I average the uncollectibles rates, to be applied to the test year
138 revenues in the instant proceeding.

139

140 Q. Why is it appropriate in this proceeding to calculate an average uncollectibles
141 rate over a four-year period?

142 A. From a simple review of the uncollectibles expense levels of the period 1998
143 through 2001, it is clear that the 2001 test year amount is an anomaly, and an
144 average calculation is typically used in rate-making to adjust for such items. My
145 analysis began by reviewing the Company's response to Staff Data Request CIL-
146 027, which asked, among other things, for the Company's method of determining
147 uncollectibles expense. The Company did not describe any use of the NYMEX
148 gas futures prices in its calculation of uncollectibles expense. Therefore, my
149 adjustment is based upon the historical experience of actual revenues and
150 uncollectibles expense, consistent with the Company's use of actual experience
151 levels as well.

152

153 Q. The Company states that any adjustment to the 2001 test year uncollectibles
154 expense should be adjusted upward, not downward (CILCO Rebuttal Exhibit 5.2,
155 page 15, lines 333-335). Did the Company propose a pro forma adjustment to its
156 uncollectibles expense in its direct case?

157 A. No, it did not. Further, the 2002 level has already dropped to \$971,000. As a
158 percentage of revenues, this amounts to a 0.4359% uncollectibles rate,
159 compared to my average rate of 0.6100%, and compared to the unadjusted test
160 year rate of 0.9700% (Company responses to Staff Data Requests DLH-8.01 and
161 DLH-13.06, and my Schedule 8.1).

162

163 Q. How does your adjustment to uncollectibles expense compare to Mr. Effron's
164 adjustment in AG/CUB Exhibit 1.0, Schedule C-2?

165 A. Our adjustments are similar, in that they both attempt to adjust for the abnormally
166 high amount of uncollectibles expense in 2001. However, since my adjustment
167 reflects an average of both the expense and revenue components, it should be
168 adopted instead of Mr. Effron's, since his adjustment only averages the expense
169 amounts and does not account for the cost of gas.

170

171 Adjustment to Incentive Compensation Expense

172 Q. Please explain your Adjustment to Incentive Compensation Expense, in
173 Schedule 8.5.

174 A. Schedule 8.5 reflects the fact that the Company has accepted my adjustment in
175 Schedule 2.5 (CILCO Rebuttal Exhibit 6.2, page 20, lines 420-424). Since the
176 Company has reflected the effect of my adjustment in its rebuttal position
177 revenue requirement, my Schedule 8.5 reflects no further decrease to operating
178 income.

179

180 Q. How does your adjustment to incentive compensation expense compare to Mr.
181 Effron's adjustment in AG/CUB Exhibit 1.0, Schedule C-2?

182 A. My adjustment includes only the cost of the Sales, Marketing, and Trading Unit
183 Plan, while Mr. Effron's also disallows the cost of the Energy Delivery Unit Plan
184 ("EDU Plan"). My analysis of Company documentation on the EDU Plan is that

the EDU Plan is consistent with the Commission's practice of allowing rate recovery for incentive compensation plans that provide ratepayer benefits.

Company Updates to Pension and Benefits Expenses

Q. Does Staff object to the Company's update of its Pensions and Benefits expenses to reflect the annualized 2003 medical costs and the annualized 2003 actuarial reports for pensions and OPEB (other post-retirement employment benefits) in CILCO Rebuttal Exhibit 6.5?

A. No. However, I discovered two items within the Company's calculations that need to be adjusted. First, the Company's calculations are based upon an estimate of pension and OPEB expense. These calculations need to be updated to the final actuarial report, issued in May of 2003. Second, I discovered an error in the Company's computation of its capitalized amount of pension and benefits amounts, which needs to be corrected.

Q. Please explain your Adjustment to Pension and Benefits Expense, in Schedule 8.6.

A. Schedule 8.6 reflects the pension and OPEB amounts from the final May 2003 actuarial report. CILCO's Rebuttal Exhibit 6.5 was prepared using an estimate from the actuary (Company response to Staff Data Request DLH-9.07). My adjustment does not change the Company's methodology for calculating the operations and maintenance amount of pensions and benefits expense.

208 Q. Please explain your Adjustment to Capitalized Pension and Benefits, in Schedule
209 8.7.

210 A. Schedule 8.7 reflects a correction to the Company's rebuttal adjustment to
211 include a portion of its medical, pension, and OPEB cost in rate base. In
212 reviewing the Company's CILCO Rebuttal Exhibit 6.5, I discovered the Company
213 inadvertently included the same amount for its increase to pensions and benefits
214 for rate base as its adjustment to expense. This is incorrect. My adjustment
215 does not change the Company's methodology for capitalizing pensions and
216 benefits. It is my understanding that the Company agrees with this correction.

217

218 Q. How do your adjustments in Schedules 8.6 and 8.7 effect Mr. Effron's
219 adjustments in AG/CUB Exhibit 1.0, Schedule C-2 and C-2.1?

220 A. In my opinion, my adjustments should be adopted instead of Mr. Effron's,
221 because these use the updated 2003 information with the correct capitalization
222 and expense allocations. Mr. Effron's adjustments are based upon the 2002
223 actuarial study and capitalization ratios that the Company has disputed.

224

225 Q. Does this conclude your prepared rebuttal testimony?

226 A. Yes, it does.

Central Illinois Light Company
Adjustment to Rate Case Expense
For the Test Year Ending December 31, 2001
In Thousands

| Line No. | Description | Amount | Source |
|-------------|---|------------------------|--------------------------------|
| | (a) | (b) | (c) |
| 1 | Rate Case Expense per Staff | \$ 204 | Line 10 |
| 2 | Rate Case Expense per Company | <u>339</u> | Company Schedule C-11, Line 12 |
| 3 | Staff Proposed Adjustment | <u><u>\$ (135)</u></u> | Line 1 - line 2 |
| 4 | Prior Gas Rate Case History: | | |
| 5 | Number of Years From 1990 through 2002 | 12 | |
| 6 | Number of Cases Since 1990 (90-0127, 94-0040) | 2 | |
| 7 | Average Time Interval Between Cases | 6 | Line 5 / Line 6 |
| 8 | Total Rate Case Expense | \$ 1,018 | Company Schedule C-11, Line 9 |
| 9 | 5 Year Amortization Period per Staff | <u>5</u> | Staff Testimony |
| 10 | Rate Case Expense per Staff | <u><u>\$ 204</u></u> | Line 8 / Line 9 |

Central Illinois Light Company
Adjustment to Union Payroll Increase
For the Test Year Ending December 31, 2001
In Thousands

| Line No. | Description | Per Company | Per Staff | Staff Proposed Adjustment |
|-------------|-----------------------------|-----------------|-----------------|------------------------------|
| | (a) | (b) (1) | (c) (1) | (d) |
| | <u>Union Payrol</u> | | | |
| 1 | Cost of Gas Expense | \$ 212 | \$ 212 | \$ - |
| 2 | Underground Storage Expense | 53 | 53 | - |
| 3 | Transmission Expense | 374 | 374 | - |
| 4 | Distribution Expense | 4,447 | 4,447 | - |
| 5 | Customer Accounts Expense | 447 | 447 | - |
| 6 | Admin. & General Expense | 49 | 49 | - |
| 7 | Total | <u>\$ 5,582</u> | <u>\$ 5,582</u> | <u>\$ -</u> |

(1) Source: WPC 3.3

Central Illinois Light Company
Adjustment for Non-Recurring Expense
For the Test Year Ending December 31, 2001
In Thousands

| Line No. | Description | Amount | Source |
|-------------|---------------------------------------|-----------------------|--|
| | (a) | (b) | (c) |
| 1 | Contract Employee Expense per Staff | \$ - | |
| 2 | Contract Employee Expense per Company | <u>31</u> | Company Response to DLH-6.01, sum of cols. (c) and (d) |
| 3 | Staff Proposed Adjustmen | <u><u>\$ (31)</u></u> | Line 1 - line 2 |

Central Illinois Light Company
Adjustment to Uncollectibles Expense at Present Rates
For the Test Year Ending December 31, 2001
In Thousands

| <u>Line No.</u> | <u>Description</u> | <u>Total Gas Operating Revenues</u> | <u>Account 904 Uncollectible Expense</u> | <u>Uncollectible %</u> | <u>Source</u> |
|-----------------|--|-------------------------------------|--|------------------------|--|
| | (a) | (b) | (e) | (f) | (e) |
| | | | | (e) / (d) | |
| 1 | 2001 Totals | \$ 285,699 | \$ 2,762 | 0.97% | Company Form 21 ILCC, p. 300 |
| 2 | 2000 Totals | 251,881 | 1,000 | 0.40% | Company Form 21 ILCC, p. 300 |
| 3 | 1999 Totals | 189,632 | 734 | 0.39% | Company Form 21 ILCC, p. 300 |
| 4 | 1998 Totals | 180,919 | 1,250 | 0.69% | Company Form 21 ILCC, p. 300 |
| 5 | 4 Year Average | | | 0.61% | Sum of Column (d) lines 1 through 4 divided by 4 |
| 6 | Company Operating Revenues at Present Rates | | | \$ 279,957 | ICC Staff Exhibit 7, Schedule 7.1, line 4 |
| 7 | Uncollectible Expense per Staff | | | \$ 1,709 | Line 5 times line 6 |
| 8 | Uncollectible Expense in Test Year per Company | | | \$ 2,762 | Company Data Request Response CIL-027 |
| 9 | Adjustment to Uncollectible Expense | | | <u>\$ (1,053)</u> | Line 7 minus line 8 |

Central Illinois Light Company
Adjustment to Incentive Compensation Expense
For the Test Year Ending December 31, 2001
In Thousands

| Line No. | Description | Amount | Source |
|-------------|--|-------------|---|
| | (a) | (b) | (c) |
| 1 | SMT Plan Expense per Staff | \$ - | |
| 2 | SMT Plan Expense per Company | <u>0</u> | CILCO Rebuttal Exhibit 6.2, pages 17-18 |
| 3 | Staff Proposed Adjustmen | <u>\$ -</u> | Line 1 - line 2 |
| 4 | SMT Plan Payroll Tax Expense per Staff | \$ - | |
| 5 | SMT Plan Payroll Tax Expense per Company | <u>0</u> | CILCO Rebuttal Exhibit 6.2, pages 17-18 |
| 6 | Staff Proposed Adjustmen | <u>\$ -</u> | Line 4 - line 5 |

Central Illinois Light Company
Adjustment to Pension and Benefits Expense
For the Test Year Ending December 31, 2001
In Thousands

| <u>Line No.</u> | <u>Description</u> | <u>Amount</u> | <u>Source</u> |
|-----------------|---|---------------|---|
| | (a) | (b) | (c) |
| 1 | Periodic Pension Cost, per 2003 Actuarial Study | \$ 18,148 | CILCO Response to Data Request DLH-9.06 |
| 2 | Allocated to Gas | 34% | CILCO Rebuttal Ex. 6.5, line 9 |
| 3 | Total Pension Cost Allocated to Gas | \$ 6,170 | Line 1 * line 2 |
| 4 | Actual Pension Cost- 2001 | (1,419) | CILCO Rebuttal Ex. 6.5, line 11 |
| 5 | Adjustment to pension cost | \$ 7,589 | Sub-total |
| 6 | O & M | 80.85% | CILCO Rebuttal Ex. 6.5, line 13 |
| 7 | Total Adjustment to expense per staff | \$ 4,989 | Line 3 * line 6 |
| 8 | Total Adjustment to expense per company | 5,608 | CILCO Rebuttal Ex. 6.5, line 14 |
| 9 | Sub-total: Pension | \$ (619) | Line 7 - line 8 |
| 10 | Periodic OPEB Cost, per 2003 Actuarial Study | \$ 18,921 | CILCO Response to Data Request DLH-9.06 |
| 11 | Allocated to Gas | 37% | CILCO Rebuttal Ex. 6.5, line 18 |
| 12 | Total OPEB Cost Allocated to Gas | \$ 7,001 | Line 10 * line 11 |
| 13 | Actual OPEB Cost- 2001 | 3,388 | CILCO Rebuttal Ex. 6.5, line 20 |
| 14 | Adjustment to OPEB cost | \$ 3,613 | Sub-total |
| 15 | O & M | 80.62% | CILCO Rebuttal Ex. 6.5, line 22 |
| 16 | Total Adjustment to expense per staff | \$ 2,913 | Line 14 * line 15 |
| 17 | Total Adjustment to expense per company | 2,787 | CILCO Rebuttal Ex. 6.5, line 23 |
| 18 | Sub-total: OPEB | \$ 126 | Line 16 - line 17 |
| 19 | Total Staff Adjustment to Pensions and Benefits | \$ (493) | Line 9 + line 18 |

Central Illinois Light Company
Adjustment to Capitalized Pension and Benefits
For the Test Year Ending December 31, 2001
In Thousands

| <u>Line No.</u> | <u>Description</u> (a) | <u>Amount</u> (b) | <u>Source</u> (c) |
|---------------------|---|------------------------|---|
| 1 | Capitalized Medical Cost, per Staff | \$ 56 | CILCO Rebuttal Ex. 6.5, line 3 - line 5 |
| 2 | Capitalized Medical Cost, per Company | <u>(115)</u> | CILCO Rebuttal Ex. 6.5, line 7 |
| 3 | Sub-Total: Medical Cost | <u>\$ 171</u> | Line 1 - line 2 |
| 4 | Total Pension Cost Allocated to Gas | \$ 6,170 | ICC Staff Exhibit 8, Schedule 8.6, line 3 |
| 5 | Pension Capitalization Rate | 19.15% | Inverse of ICC Staff Exhibit 8, Schedule 8.6, line 6 |
| 6 | Capitalized Pension Cost, per Staff | \$ 1,182 | Line 4 * line 5 |
| 7 | Capitalized Pension Cost, per Company | <u>1,418</u> | CILCO Rebuttal Ex. 6.5, line 16 |
| 8 | Sub-Total: Pension | <u>\$ (236)</u> | Line 6 - line 7 |
| 9 | Total OPEB Cost Allocated to Gas | \$ 3,613 | ICC Staff Exhibit 8, Schedule 8.6, line 14 |
| 10 | Pension Capitalization Rate | 19.38% | Inverse of ICC Staff Exhibit 8, Schedule 8.6, line 15 |
| 11 | Capitalized OPEB Cost, per Staff | \$ 700 | Line 9 * line 10 |
| 12 | Capitalized OPEB Cost, per Company | <u>794</u> | CILCO Rebuttal Ex. 6.5, line 25 |
| 13 | Sub-Total: OPEB | <u>\$ (94)</u> | Line 11 - line 12 |
| 14 | Total Staff Adjustment to Rate Base for Capitalized Pension and Benefits | <u><u>\$ (159)</u></u> | Sum of lines 3, 8, and 14 |